

GOERING CENTER

FAMILY BUSINESS REPORT



Finding Solutions
Sharing Experiences



PROFESSIONALLY SPEAKING

A SUPPLEMENT TO THE BUSINESS COURIER OCTOBER 20, 2006



Dr. Suzanne Masterson
Professor, Management Department
UC College of Business

How Do Your Employees Feel About Your Company? Does it Matter?

Occasionally, the Goering Center is offered an opportunity to provide access to professional researchers at the UC College of Business for the benefit of our family and private firm constituents. I am interrupting my series of articles on strategic management to make you aware of just such an opportunity.

If you are the owner of a firm with at least 30 employees and are interested in knowing the answer to the above question in the title, the Goering Center and the UC College of Business can help you out- and all it will cost you is the time it takes your employees and their supervisors to fill out a brief survey.

Professor Suzanne Masterson of the Management Department in the UC College of Business is conducting research aimed at understanding how closely tied employees feel to their organizations, and what the potential benefits of stronger ties are for the firm.

Organizations that participate in this study will receive a report of the study results, as well as customized advice regarding the current relation-

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Family Systems Versus Business Systems

Is There A Difference? You Bet There Is!!!!

We all know that men are from Mars and women are from Venus, or is it women are from Mars and men are from Venus. Whatever is the case, it's pretty clear that men and women are from different planets. If we are clear on that fact, then it probably would be fair to say that family and business systems are from opposite universes. A little exaggeration perhaps, but many family business owners I know would agree with that statement. Business systems exist to further the business with systems that are clear in definition and strictly followed, while family systems exist to help individual family members with many dimensions that are vague, and require compromise. When you bring these two systems together-Bingo-you create a very challenging environment.



W. Kent Lutz,
Director

What are some of the comparisons between an effective business system and a healthy family system that need to be clearly understood in order for families in business to overcome many of the challenges they face? **FIRST** - Membership. In a business system, individuals are included because there is a need and they are accountable for performance, while in a family system, membership is automatic and lasts forever. **SECOND** - Who's in Charge? In a business system there's a CEO and possibly a Board that has final authority, while in a family system leadership shifts among family members, and there's no

overwhelming need for any one person to be in charge. **THIRD** - Decision Making. In a business system decision making authority is clearly defined and is consistent, while in a family system decision making authority shifts according to the circumstance. **FOURTH** - Reporting Relationships. In a business system reporting relationships are clear and consistent, while in a family system expectations regarding authority and accountability may shift according to specific situations. An example may be that aging parents become more accountable to their children for certain care. **FIFTH** - Job Definition. In an effective business system jobs are clearly defined based on the needs of the overall organization and the relationship between each job is clear, while in a healthy family system there are no real titles, but rather roles are taken in accordance with each person's capabilities. **SIXTH** - Priorities. In an effective business system there are long range goals established, and all individuals of the business work to achieve those goals and subjugate their own needs, while in a healthy family each person's long range goals have precedence so long as it does not undermine the needs or interests of other family members. **SEVENTH** - Goals and Performance Evaluation. In an effective business system, goals are clearly defined, accountability is present, evaluation takes place, and rewards or lack thereof are established, while in a healthy family system, goals may be informal or even if they are explicit, there is no rigid

performance evaluation that takes place. Usually family goals focus on individual and collective growth, rather than subser- viently serving the family unit. **EIGHTH** - Rewards. In a business system rewards are related to greater compensation and/or authority, while in a healthy family system rewards emphasize love, nurturing, and self actualization. Finally, **NINTH** - Longevity. In an effective business system the organization exists only as long as the busi- ness exists, and the goal is usually to keep it going indefinitely, while in a healthy family system, the family will always exist as fam- ily, but the goal is to separate and have the children start their own nuclear family.

It becomes very apparent from these nine comparisons that the gap between an effective business system and a healthy family is very wide. When you blend the two into a family business or business family, you most certainly deal with family relationships, roles, issues, emotions, and history that impact the business's activi- ties, while at the same time, participation in and/or ownership of a business by family members impacts the family relations. You simply cannot escape this reality. Healthy families systems and effective businesses systems learn to separate the two. We will address the HOW TO'S in future columns.

Until next time, don't forget to tune in, video tape, or tivo, every Sunday at 11am on channel 9 WCPO to our Fifth Third Bank Hometown Business Weekly TV pro- gram. We have great guests, and we know you will enjoy hearing these compelling sto- ries about many of the great entrepreneurial family businesses in our region.....WKL.

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Helping Your Bank Lender Help You

By Chris Ramos, Vice President, Fifth Third Bank

Many businesses thrive with little or no debt. A generational transfer of the business often changes this situation. The value of the business and the selling generation's desire for liquidity typically result in an increase in the company's level of debt to finance the buyout. A likely source for this debt is a commercial bank loan.

Commercial lenders use primarily depositor money to fund loans earning a 2-4% net interest margin. With these relatively low expected returns, it is nearly impossible for a bank to succeed financially if it suffers a recurring series of loan losses. In addition, banks have a duty to protect their depositor's assets. Adherence to this duty is enforced by the various regulatory agencies that examine each bank's loan portfolio.

Thus, most banks try to select loan situations where risk can be minimized. Bank loan decisions are typically determined by assessing the expected level of future cash flow of the business, along with the collateral and/or guarantee(s) which provide additional support if the company defaults. Of course every situation is unique and there are no hard and fast rules for every loan. In addition to

the cash flow and collateral, the character of the company's leadership team and the conditions (industry, government regulations, competition etc.) under which the company operates must be carefully considered.



This process not only determines if a loan will be approved but also determines the terms and conditions for the loan. This includes key items like the interest rate and maturity date for the loan, as well as personal guarantee and financial cov-

enant requirements.

With so much riding on the subjective judgment of your bank, how well does your bank know you? How well do you know your bank? If you can answer "yes" to the following questions you have positioned yourself well to get the best financing package available for your company:

- 1.) Have you provided detailed historical financials and projections of future performance, including descriptions of the factors that influence past and future results?
- 2.) Do you understand the details of your bank's loan decision-making process?
- 3.) Does your bank have a credit commit-

tee or a signature system?

4.) Have you met all of the individuals involved in your company's credit decisions?

5.) Have you equipped these individuals with the knowledge and understanding of your business that allows them to be effective advocates for your loan?

The answers to these questions can also help you decide which bank is best for you. Most importantly, these questions will help you determine how your bank will react if your financial performance deteriorates.

The banking business is very competitive, with numerous banks providing low cost financing alternatives (especially for very high quality borrowers). The highest quality borrowers set goals and expectations for future performance, which they routinely meet or exceed. Throughout this process, they continuously keep their bank informed and involved in their challenges and triumphs. They help their lenders help them.

Chris Ramos is Vice President and Senior Relationship Manager in the Middle Market Commercial Banking Division of Fifth Third Bank. He can be reached at Christopher.Ramos@53.com



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Family Business Executive Luncheon**
**Sid Barton & Kent Lutz-Goering Center
Diane Egbers-Leadership Excelleration, Inc.
November 7, 2006-11:30-1:30pm, Kenwood Country Club**



The Goering Center's New Value Proposition For Members Will Be Presented, Highlighting All The Great Educational And Infomational Opportunities That Will Now Be Available Through The Center
Additionally, The Center's New Leadership Development Institute(LDI) Will Be Discussed By The Center's New Partner, Leadership Excelleration, Inc. You Won't Want To Miss This Infomative Luncheon.

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Goering Center For Family & Private Business

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BUSINESS ESTATE PLANNING How to Preserve Your Life's Work

By Thomas R. Binzer, CPCU, ChFC, CLU, USI Midwest

You've spent a lifetime building your business. Now, you need to take a few moments to make sure your hard work will survive after your death or the death of one of your partners.

As the owner of a closely held business, much of your wealth is probably tied up in the business. While returning earned income back into the business helps finance growth, it can cause severe liquidity problems for your estate when you die. There are ways to overcome these liquidity problems. Business-oriented planning tools may help reduce estate taxes and make the best use of the cash available. The most common business estate-planning strategies are buy-sell agreements, Section 303 stock redemptions, and Section 6166 estate tax deferrals.



Business-owned life insurance can be used to fund each of these planning methods.

Buy-Sell Agreements - Buy-sell agreements can establish the value of your business for estate-tax purposes and improve your estate's liquidity by assuring a ready market for your business upon your death. These agreements also protect business partners from sharing ownership with a deceased stockholder's family.

There are two main forms of buy-sell agreements: cross-purchase and stock redemption. In an insurance funded cross-purchase arrangement, each business owner buys an insurance policy on the other, naming themselves as beneficiary. At the death of one of the owners, the surviving owner receives tax-free insurance proceeds to use in purchas-

ing the deceased owner's stock from his or her estate.

A buy-sell plan that is funded with life insurance has these benefits:

Your Family

- Prevents conflict with surviving owners
- Helps ensure that your family receives a fair price for your business
- May set the value of your business for estate-tax purposes
- Provides needed cash

Your Business

- Keeps new and/or unwanted owners out of the business
- Prevents disputes
- Helps ensure continuity and orderly transfer of ownership
- May provide tax-free cash to purchase stock

Section 303 Redemptions

Section 303 of the Internal Revenue

Code gives your estate a one-time opportunity to remove cash or other property from your business, at little or no tax cost, through a partial redemption of your stock. This can provide the liquidity your survivors need to pay funeral costs, estate and administrative expenses, and state and federal death taxes.

To be eligible for a Section 303 Redemption, the stock value must exceed 35 percent of your estate.

The maximum amount that can be paid under such a plan equals the total amount of the federal estate tax, state death taxes, funeral and administrative expenses. Corporate-owned life insurance can be used to fund the redemption. Under this arrangement, your business purchases an insurance policy on your life and at your death uses the tax-free proceeds to buy enough stock from your estate to cover death expenses and taxes.



AVOIDING THE DOG HOUSE: When Private Meets Public Sector

By Bruce I. Petrie, Jr., Esq.*, Graydon, Head & Ritchey, LLP

Here's the scenario: a civic-minded private business owner decides to join a local public board. It's a good thing, of course, for private citizens to volunteer time and talents to the public sector. But, welcome to a different world, especially, in the area of board communications.

Let's take the example of e-mail, often the initiation rite of the uninitiated. (The points about e-mail generally apply to any retrievable electronic communication: e.g., voice mail messages, faxes, etc.) Private sector e-mail habits tend to carry over into the public sector, along with the illusion of e-mail privacy which is not justified by reality in either sector. General e-mail habits, especially in the public sector, should always include a mental "note to self:" what if this e-mail was public? More frequently than expected, the answer may be: "it is public." The e-mail activity of a public entity usually is (some exceptions) a "public record," subject to mandatory disclosure under state and federal public record and freedom of information laws.

Let's use a hypothetical involving a Public Dog Pound. The e-mails between the Chief Dog Catcher and his Lieuten-

ant containing the "monthly catch total" are clearly a public record given that the communication is between two "public" employees. How about e-mails between the volunteer trustees of the Public Dog Pound Board or e-mails from Board members to employees? The answer is it depends upon what they're e-mailing. If the e-mails are about the public business of

the Pound Board, they are probably considered a public record and therefore subject to state and/or federal public record and freedom of information laws.

Consider another twist. Most public boards are also subject to open meeting or "sunshine" requirements. Public meetings require public notice and openness, with certain exceptions for business legally permitted to be conducted in "executive session." What if the trustees on the Pound Board decide it would be easier on everyone's busy schedule (we're volunteers after all) to conduct business by e-mail instead of meetings? Efficient business practice, yes. Good idea for the Pound Board, no. Why? Because a prearranged deliberation of the board by e-mail, in lieu of a meeting, could be subject to public



inspection.

Some private non-profit entities that receive a lot of public funding are legal "hybrids," so that even though their employees are not public employees, the entity is covered by the public records and open meeting laws. So, Board members can't always assume messages are "private," even when the employees are not public employees.

Should dedicated private citizens continue to enter the public sector?

Most certainly. But avoid the dog house with some due diligence about the board you're joining, some learning about its regulatory environment, and some changed habits when you wear the public hat.

**Bruce I. Petrie, Jr., Esq. is a partner and Member of the Executive Committee of Graydon, Head & Ritchey LLP whose law practice and civic involvement includes both the private and public sectors.*



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Step 1 of 8 Forming The Foundation of A Successful Transition

By Mark A. Signorelli, Managing Partner, Cincinnati Growth Partners LLC

Without a thoughtful foundation to begin your succession planning process, you could end up in this unfortunate, but common situation:

Son: Hey dad, when are you going to retire and let me run the place?

Father: In a few years when I think you are ready.

Son: How will I know when I am ready?

Father: I'll let you know.

(Several months go by)

Son: I think I'm ready now, so how about I buy you out?

Father: Maybe... if you had enough money.

Son: How much do you want?

Father: Well, I have my heart and soul in this thing so I figure it's worth at least \$25 million.

Son: Where did you get that number?

Father: I saw what ABC Co. sold for, and we're surely worth more.

(More months go by)

Son: Dad, the bank says they will loan me \$10 million to buy you out, how about that?

Father: Where are you getting the other \$15 million?

Son: I can pay you over time.

Father: That sounds like a lot of risk for your Mom and me to take. I'm not sure I am ready to take that kind of risk, since you're not quite ready to take over yet.

Son: So when will I be ready?

Father: I'll let you know....

Feel the tension? You can cut it with a knife!

I'd like to say this conversation is fictional but, unfortunately, it happens all



too often. Conversations like this usually end in a flurry of frustration that not only can impact the entire family, but also bleed negativity to the company's employees, who always sense any underlying angst at the top. Per my last article in this series that outlined The 8 Steps to a Seamless Transition of Value and Control of Your Family Business, the first step in the pro-

Following the 8 Steps to a Seamless Transition of Value and Control will serve you well if completed in order

cess is both the most crucial and the most commonly overlooked.

There are basically three elements to forming a strong foundation for a Seamless Succession Plan;

1. Set a specific timeline for completion – starting a journey without an end in

sight can tear apart a family and damage the underlying business significantly.

2. Identify the capabilities and professional development plans for the next generation – these plans must include specific milestones that help define what “being ready” really means to avoid the ambiguity that causes conflict.

3. Enter the process together as a team - Avoid hiring advisors for “each side” and getting started off on adversarial footing. Find an experienced firm in Succession Planning to lead the family through the 8 steps to a Seamless Transition of Value and Control. This will preserve both the “family” and the value of the Family Business.

Following The 8 Steps to a Seamless Transition of Value and Control will serve you well if completed in order, while taking a shortcut can land you in a dead end...or worse. Other articles in this series summarizing all 8 Steps can be found at www.cincygrowth.com.

**Cincinnati
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Be Sure to Watch Fifth Third Bank Hometown Business Weekly Sundays at 11am on WCPO.

Professionally Speaking, Continued from Page 1B

ship between their employees and the firm.

Participation involves two things: (1) allowing/encouraging employees to fill out confidential surveys about their work-related perceptions, attitudes and behaviors; (2) allowing/encouraging those employees' supervisors to complete a brief survey about the employee's work-related behaviors. We estimate the employee survey will take about thirty minutes to complete, and the supervisor survey even less time.

As described above, organizations need to have at least thirty employees (plus their supervisors) eligible to complete the survey so that patterns can be established and reported back to the company. Firms need not be local

in the Cincinnati/Northern Kentucky area, as we can be flexible in terms of how surveys are administered (i.e. in-person, via mail, via internet, etc.)

To obtain valuable information and insight into the perceptions of your work force like this would cost several thousand dollars if commissioned to an outside consultant. However, the Goering Center and the UC College of Business is pleased to offer this study for free. If you want to take advantage of this opportunity, please email Dr. Suzanne Masterson at Suzanne.Masterson@uc.edu, or call her at 513-556-7125.

I urge you to participate in this study. It may just help you improve your bottom line!

Tune In To Watch Your Favorite Local Family & Private Business

Tune In To Watch Your Favorite Local Family & Private Business On The Goering Center's **Fifth/Third Bank Hometown Business Weekly** TV Program.

- Every Sunday Morning
- Channel 9, WCPO
- 11:00 a.m.

Companies And Guests That Will Appear Over The Next Several Weeks Will Include:

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- Long Stanton Manufacturing
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- Triple Crown Winner Steve Cauthen
- And Many Other Great Guests.

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